

Corporate Governance

Trencor endorses the principles underlying the Code of Corporate Practices and Conduct in the King III Report on Corporate Governance ('the Code' or 'the King Report'). Ongoing enhancement of corporate governance principles is a global movement, supported by the board which, together with senior management, will continue to follow and adopt, as appropriate, existing and new principles which advance good practical corporate governance and add value to the company.

The 75 principles recommended by the King Report have been assessed and the disclosure on how each has been applied or an explanation why or to what extent they were not applied is contained in a register available on the company's website.

Save as may be indicated in that register and in this report, the board is not aware of any non-compliance with the Code during the year under review.

The salient features of corporate governance are set out below.

BOARD OF DIRECTORS

COMPOSITION

The names and brief résumés of the directors appear on page 71.

The board currently comprises nine directors, four of whom are executive and five non-executive of whom four qualify as independent non-executive directors in terms of the King Report. The directors have considerable experience and an excellent understanding of the businesses.

Board effectiveness reviews are undertaken on an annual basis and the board is satisfied with the results of this process.

Nominations for appointment to the board are formal and transparent and submitted by the nomination committee of the board to the full board for consideration.

CHAIRMAN/CEO

Trencor has an executive chairman and currently does not require a separate CEO, due to its small corporate office and the limited nature of its activities as an investment holding company.

The appointment of the chairman is reviewed on an annual basis. In view of the fact that the chairman is an executive, Mr D M Nurek is the appointed lead independent non-executive director.

The board is satisfied that no one individual director or block of directors has undue influence on decision-making.

PROFESSIONAL ADVICE

All directors have access to the company secretary and management and are entitled to obtain independent professional advice at the company's expense if required.

COMPANY SECRETARY

The company secretary is Trencor Services (Pty) Limited, a wholly-owned subsidiary of the company, which is mainly responsible for corporate administration of the company's corporate office functions. The board is of the opinion that, in view of the fact that the company secretary is a wholly-owned subsidiary, an arms-length relationship is not feasible. Based on the outcome of an annual assessment conducted by the executive committee, the board is satisfied that the specific individual employed by Trencor Services (Pty) Limited to carry out the duties of a secretary of a public company has the requisite competence, knowledge and experience to effectively perform the role as the gatekeeper of good governance.

MEETINGS

The board meets on a scheduled quarterly basis and at such other times as circumstances may require. During the year ended 31 December 2014, four meetings were held and these were attended by all directors in person or by telephone/video link.

Board papers are timeously issued to all directors prior to each meeting and contain relevant detail to inform members of the financial and trading position of the company and each of the operations. When appropriate, strategic matters and developments are also addressed.

The chairman meets with non-executive directors, either individually or collectively, on an ad-hoc basis to apprise them of any significant matters that may require their input and guidance. In addition, the independent non-executive directors may hold separate meetings as and when they deem it appropriate.

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service agreement. All executive directors have an engagement letter which provides for a notice period of between one and three months to be given by either party.

In terms of the memorandum of incorporation, not less than one-third of the directors are required to retire by rotation at each annual general meeting of the company and may offer themselves for re-election. New directors appointed during the year are required to retire at the next annual general meeting, but may offer themselves for re-election.

**DIRECTORS' INTERESTS**

The number of shares held by the directors and their associates in the issued share capital of the company at 31 December 2014 and 2013 was as follows:

| | Beneficial | | Total |
|-------------------|----------------|-------------------|-------------------|
| | Direct | Indirect | |
| J E Hoelter | - | - | - |
| C Jowell | 159 831 | 5 262 929 | 5 422 760 |
| N I Jowell | 47 832 | 5 579 018 | 5 626 850 |
| J E McQueen | 49 649 | 102 133 | 151 782 |
| D M Nurek | - | 10 000 | 10 000 |
| E Oblowitz | 10 000 | - | 10 000 |
| R J A Sparks | - | 4 000 | 4 000 |
| H R van der Merwe | - | - | - |
| H Wessels | - | 27 859 | 27 859 |
| | 267 312 | 10 985 939 | 11 253 251 |

Subsequent to the financial year-end, Mr N I Jowell acquired an additional 86 200 Trencor shares for an aggregate consideration of R5 million.

The number of shares held by the directors and their associates in the issued common stock of Textainer Group Holdings Limited at 31 December 2014 and 2013 was as follows:

| | Beneficial | | Total |
|-------------------|---------------|------------------|------------------|
| | Direct | Indirect | |
| 2014 | | | |
| J E Hoelter | - | 1 006 693 | 1 006 693 |
| C Jowell | 4 047 | - | 4 047 |
| N I Jowell | 4 047 | 62 981 | 67 028 |
| J E McQueen | 4 047 | - | 4 047 |
| D M Nurek | 4 047 | - | 4 047 |
| E Oblowitz | - | - | - |
| R J A Sparks | - | - | - |
| H R van der Merwe | 694 | - | 694 |
| H Wessels | - | - | - |
| | 16 882 | 1 069 674 | 1 086 556 |
| 2013 | | | |
| J E Hoelter | - | 1 005 628 | 1 005 628 |
| C Jowell | 2 982 | - | 2 982 |
| N I Jowell | 2 982 | 62 981 | 65 963 |
| J E McQueen | 2 982 | - | 2 982 |
| D M Nurek | 2 982 | - | 2 982 |
| E Oblowitz | - | - | - |
| R J A Sparks | - | - | - |
| H R van der Merwe | 694 | - | 694 |
| H Wessels | - | - | - |
| | 12 622 | 1 068 609 | 1 081 231 |

There have been no other changes in the above interests between the financial year-end and the date of this report.

AUDIT COMMITTEE

The audit committee, appointed by shareholders at each annual general meeting, comprises three independent non-executive directors. The committee normally meets at least twice a year, prior to the finalisation of the group's interim and annual results, and at such other times as may be required. The committee is primarily responsible for assisting the board in carrying out its duties in regard to accounting policies, internal controls and audit, financial reporting, identification and monitoring of risk, and the relationship with the external auditors.

In addition to the committee members, the other members of the board and certain other group executives are normally invited to attend meetings of the committee. The external auditors attend all meetings and have direct and unrestricted access to the audit committee at all times. In addition, the committee chairman meets separately with the external auditors on an ad-hoc basis.

During the year, the committee met on two occasions. The meetings were attended by all members.

The audit committee is satisfied as to the expertise and experience of the financial director, and of the finance function as a whole, and that the external auditors are independent in the discharge of their duties. The use of the services of the external auditors for non-audit services requires prior approval by the committee chairman.

Textainer has its own audit committee comprising Textainer board members who are not executives of that entity. The external auditors of Textainer have direct and unrestricted access to its audit committee.

Where appropriate, the internal audit functions are primarily outsourced to suitably qualified independent external parties which are contracted on an ad-hoc basis in terms of specified terms of reference and to report to the executive committee and, if required, the audit committee.

REPORT BY CHAIRMAN OF THE AUDIT COMMITTEE**Membership**

The audit committee, comprising three independent non-executive directors, was appointed by shareholders at the previous annual general meeting and the board of directors appointed Mr E Oblowitz as chairman of the committee for the 2014 financial year.

Shareholders will be requested to vote on and approve the appointment of the members of the audit committee for the 2015 financial year at the forthcoming annual general meeting.

The committee's operation is guided by its detailed terms of reference that are informed by the Companies Act of South Africa and the King Report and approved by the board.

The committee met with the external auditors on two occasions. In addition, in my capacity as chairman, I met from time to time with the auditors with and without management being present.

Purpose

The primary purpose of the committee is:

- to assist the board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control and reporting processes, and the preparation of accurate reporting and financial statements in compliance with the applicable legal requirements and accounting standards;
- to meet with the external auditors at least on an annual basis;
- to review the company and group annual financial statements and reports as well as reports from subsidiary companies; and
- to conduct reviews of the committee's work and terms of reference and make recommendations to the board to ensure that the committee operates at maximum effectiveness.

Execution of functions

The audit committee has executed its duties and responsibilities during the financial year in accordance with its terms of reference as they relate to the group's accounting, internal control and financial reporting practices.

During the year under review:

- In respect of the external auditor and the external audit, the committee amongst other matters:
 - nominated KPMG Inc to the shareholders for appointment as external auditor for the financial year ended 31 December 2014, and ensured that the appointment complied with all applicable legal and regulatory requirements for the appointment of an auditor. The committee confirms that the auditor and the designated auditor are accredited by the JSE;
 - approved the external audit engagement letter, the audit plan and the budgeted audit fees payable to the external auditor;
 - reviewed the audit, evaluated the effectiveness of the auditor and its independence and evaluated the external auditor's internal quality control procedures;
 - obtained an annual written statement from the auditor confirming that its independence was not impaired; and
 - determined the nature and extent of all non-audit services provided by the external auditor and pre-approved all non-audit services undertaken.
- In respect of the financial statements, the committee amongst other matters:
 - confirmed the going concern status as the basis of preparation of the interim and annual financial statements;
 - examined and reviewed the interim and annual financial statements, as well as all financial information disclosed to the public, prior to submission and approval by the board;

- ensured that the annual financial statements fairly present the financial position of the company and of the group as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the company and the group were determined to be going concerns;
- considered accounting treatments, significant unusual transactions and accounting judgements;
- considered the appropriateness of the accounting policies adopted and changes thereto;
- reviewed the external auditor's audit report;
- considered any problems identified and reviewed any significant legal and tax matters that could have a material impact on the financial statements; and
- met separately with management and the external auditor.
- In respect of internal control, the committee amongst other matters:
 - received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof; and
 - based on the above, formed the opinion that there were no material breakdowns in internal control, including financial controls, business risk management and maintaining effective material control systems.

Independence of external auditor

The audit committee is satisfied that KPMG Inc is independent of the group.

Annual financial statements

Having achieved its objectives, the committee recommended the audited annual financial statements for the year ended 31 December 2014 for approval by the board. The board subsequently approved the financial statements, which will be open for discussion at the forthcoming annual general meeting.

BOARD AND BOARD COMMITTEE TERMS OF REFERENCE

The board is ultimately accountable and responsible for the performance and affairs of the company. In essence, it provides strategic direction, monitors and evaluates operational performance and executive management, determines policies and processes to ensure effective risk management and internal controls, determines policies regarding communication and is responsible for ensuring an effective composition of the board.

COMMITTEES OF THE BOARD

Several committees of the board exist, each with specific terms of reference, to assist the board in discharging its responsibilities. The terms of reference are reviewed on an annual basis. The composition of these committees is reviewed on an ongoing basis. The names of the members of the committees appear on page 2.



NOMINATION COMMITTEE

The nomination committee comprises three independent non-executive directors and identifies and recommends to the board suitable competent candidates for appointment as directors.

The committee meets on an ad-hoc basis. During the year, the committee held one meeting which was attended by both then members. Mr H Wessels was appointed to the committee on 18 February 2015.

Directors' independence

The committee has conducted the necessary annual assessment and is satisfied as to the independence of each of the independent non-executive directors of the company and, in particular, those who have been in office for more than nine years, having regard to the requirements of the King Report and the provisions of the Companies Act of South Africa.

Succession planning

The nomination committee of the board is satisfied that suitable succession plans are in place.

EXECUTIVE COMMITTEE

The executive committee, comprising the four executive directors, met formally on a regular basis throughout the year and informally as and when required. During the year, ten formal monthly meetings were held which were attended by all members. The minutes of these meetings are distributed to non-executive directors after each meeting.

This committee has the authority of the board, which is subject to annual review, to take decisions on matters involving financial risk management and matters requiring immediate action (subject to the approval of the committee chairman or his nominee) and passing of enabling resolutions, which:

- do not have major policy implications for the group, or
- have been discussed with and the support obtained from a majority of board members, save that any dissenting director has the right to call a board meeting, or
- if requiring significant capital expenditure, are in the normal course of business.

REMUNERATION COMMITTEE

The remuneration committee reports directly to the board and comprises two independent non-executive directors. The committee's task is to review the compensation of executive and non-executive directors and senior management of the company. The chairman of the board is usually invited to attend meetings of the committee, but does not participate in any discussion relating to his own remuneration.

During the year, one committee meeting was held which was attended by both members.

The committee, in assessing base salaries and other forms of guaranteed remuneration, takes into account appropriate benchmarking including, where required, input from independent remuneration consultants.

Remuneration policies and practices

Trencor seeks to employ persons of superior ability who will adequately meet the needs of our stakeholders and believes remuneration should be at least commensurate with that of similarly qualified people in comparable positions in like industries and in similar geographic locations.

• Executive directors

Executive directors are paid a guaranteed amount on a cost to company basis, which includes salaries as well as medical aid and pension fund contributions.

They are also paid an annual incentive bonus based on the adjusted headline earnings that excludes, inter alia, the effect of any unrealised translation gains or losses on translation of the long-term receivables arising as a result of changes in the rand/US dollar exchange rate. Accordingly, the annual incentive bonus payments are directly correlated to the performance of the company.

Remuneration is pro-rated in respect of executives who are employed on a part-time basis.

• Members of management who are not executive directors

The company's policy in respect of these executives is that their guaranteed pay, determined on a cost to company basis, together with an incentive bonus paid should be attractive compared to levels paid in equivalent positions in other companies. The policy in respect of the incentive bonus is on the same terms as for executive directors.

• Non-executive directors

The remuneration committee recommends the fees payable to non-executive directors to the board for approval which, in turn, proposes such fees to shareholders for approval. These fees are also determined with reference to appropriate benchmarking against comparable companies.

Shareholders will be asked at the forthcoming annual general meeting to approve the proposed remuneration payable to non-executive directors in their capacity as such from 1 July 2015 until the next annual general meeting, which represents an increase of 7%.

The US-based non-executive director is paid in US dollars which takes into account time expended on travel. Other non-executives are compensated for special services to the group.

Directors' remuneration

The remuneration paid to the directors during the years ended 31 December 2014 and 2013 was as follows:

| | Guaranteed remuneration R'000 | Medical aid R'000 | Contributions to | | Share-based payments* R'000 | Total remuneration R'000 |
|------------------------------------|----------------------------------|----------------------|---------------------------|----------------------------|--------------------------------|-----------------------------|
| | | | Retirement funds R'000 | Incentive bonuses R'000 | | |
| 2014 | | | | | | |
| Non-executive directors | | | | | | |
| J E Hoelter | 1 285 | - | - | - | 413 | 1 698 |
| D M Nurek | 1 011 | - | - | - | 413 | 1 424 |
| E Oblowitz | 331 | - | - | - | - | 331 |
| R J A Sparks | 330 | - | - | - | - | 330 |
| H Wessels | 271 | - | - | - | - | 271 |
| | 3 228 | - | - | - | 826 | 4 054 |
| Executive directors | | | | | | |
| C Jowell | 1 329 | 20 | - | 1 042 | 413 | 2 804 |
| N I Jowell | 2 881 | 28 | - | 2 606 | 413 | 5 928 |
| J E McQueen | 3 022 | 39 | 254 | 593 | 413 | 4 321 |
| H R van der Merwe | 844 | 39 | 89 | - | - | 972 |
| | 8 076 | 126 | 343 | 4 241 | 1 239 | 14 025 |
| Aggregate remuneration 2014 | 11 304 | 126 | 343 | 4 241 | 2 065 | 18 079 |
| 2013 | | | | | | |
| Non-executive directors | | | | | | |
| J E Hoelter | 1 124 | - | - | - | 333 | 1 457 |
| D M Nurek | 942 | - | - | - | 333 | 1 275 |
| E Oblowitz | 307 | - | - | - | - | 307 |
| R J A Sparks | 307 | - | - | - | - | 307 |
| H Wessels | 252 | - | - | - | - | 252 |
| | 2 932 | - | - | - | 666 | 3 598 |
| Executive directors | | | | | | |
| C Jowell | 1 215 | 19 | - | 1 191 | 333 | 2 758 |
| N I Jowell | 2 646 | 24 | - | 2 947 | 333 | 5 950 |
| J E McQueen | 2 782 | 36 | 235 | 707 | 333 | 4 093 |
| H R van der Merwe | 781 | 37 | 82 | - | - | 900 |
| | 7 424 | 116 | 317 | 4 845 | 999 | 13 701 |
| Aggregate remuneration 2013 | 10 356 | 116 | 317 | 4 845 | 1 665 | 17 299 |

* Award of shares in Textainer Group Holdings Limited for services rendered as directors of Textainer.

No fees are paid to executive directors for services as director.

The Trencor Share Option Plan

In terms of The Trencor Share Option Plan, options were previously granted to certain executive directors and employees. All of these options have been exercised and there are no options currently outstanding.

There is currently no intention to grant further options but the Plan is being maintained in its current dormant state in order that options may be granted in future should the need arise. Accordingly, no authority is sought from shareholders at this stage to place the unissued shares reserved for the Plan under the control of the directors and to authorise the directors to issue such shares.



GOVERNANCE COMMITTEE

The governance committee comprises three independent non-executive directors. The committee is responsible for making recommendations to the board in all matters relating to the development, evaluation and monitoring of the company's corporate governance processes, policies and principles; the development and implementation of and monitoring compliance with the company's Code of Conduct and making recommendations to the board on revisions thereto from time to time as appropriate.

During the year, one committee meeting was held, which was attended by both then members. Mr H Wessels was appointed to the committee on 18 February 2015.

Restriction on trading in shares

A formal policy prohibits directors, officers and employees from dealing in the company's shares from the end date of an interim reporting period until after the interim results have been published and similarly from the end date of the financial year until after the reviewed annual results have been published. Directors and employees are reminded of this policy prior to the commencement of any restricted period.

In addition, no dealing in the company's shares is permitted by any director, officer or employee whilst in possession of information which could affect the price of the company's shares and which is not in the public domain.

Directors of the company and of its major subsidiaries are required to obtain clearance from Trencor's chairman (and in the case of the chairman, or in the absence of the chairman, from the chairman of the audit or remuneration committee) prior to dealing in the company's shares, and to timeously disclose to the company full details of any transaction for notification to and publication by the JSE.

SOCIAL AND ETHICS COMMITTEE

Given the limited nature of the company's activities as an investment holding company, the activities of this committee are limited in nature.

The social and ethics committee comprises an independent non-executive director as chairman and two executive directors.

During the year, one committee meeting was held, which was attended by all members.

The main objective of the committee is to assist the board in monitoring the company's performance as a good and responsible corporate citizen by monitoring sustainable development practices.

The committee is responsible for developing and reviewing policies with regard to the commitment, governance and reporting of sustainable development performance and for making recommendations to the board in this regard.

Its role also includes the monitoring of any relevant legislation, other legal requirements or prevailing codes of best practice,

specifically with regard to matters relating to social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships, as well as labour and employment. Refer to the sustainability report on pages 20 to 22.

Code of ethics

The board, management and staff agreed a formal code of ethical conduct in 1998 which seeks to ensure high ethical standards. All directors and employees are expected to strive at all times to adhere to this code, and to enhance the reputation of the company. This code is signed by all directors, managers and employees on an annual basis.

Any transgression of this code is required to be brought to the attention of the board. There were no transgressions during the year under review.

RISK COMMITTEE

The risk committee comprises the members of the audit committee and Messrs J E Hoelter and D M Nurek. During the year, two committee meetings were held, which were attended by all members.

In addition to the committee members, the chairman of the board, the financial director and certain other group executives are invited to attend meetings of the committee.

Responsibility for managing risk lies ultimately with the board of directors. The risk committee and executive committee assist the board in discharging its responsibilities in this regard by identifying, monitoring and managing risk on an ongoing basis and within the authority conferred upon them by the board. The identification and mitigation of risk is a key responsibility of management and the executive committee.

The following significant risk exposures within the Operations and the possible impacts and the measures taken to mitigate such risks have been identified:

- **Exchange rate fluctuations**

The Operations are largely US dollar-based and, accordingly, changes in the R/US\$ exchange rate can and do significantly affect the translation of assets, liabilities, profits and losses into South African currency. The long-term export receivables are all denominated in US dollars. The board has resolved that these receivables should remain in US dollars and should not be hedged into any other currency, save that the executive committee is authorised to sell limited amounts due to be collected forward, into rand, if it believes that doing so would protect the rand receipts. Unrealised gains and losses arising on translation at reporting dates of the unhedged portion of the long-term receivables and related valuation adjustments are included in profit and loss and changes in the R/US\$ exchange rate may result in volatility in earnings when expressed in rand.

For the years ended 31 December 2014 and 2013, 28% and 32% respectively of Textainer's direct container expenses were paid in eighteen foreign currencies other than the US dollar. A decrease in the value of the US dollar against non-US currencies in which these expenses are incurred would translate into an increase in those expenses in US dollar terms, which would decrease net income of Textainer and the group.

- **Decrease in activity – effect on long-term receivable collections**

Declines in lease rates, utilisation and residual values of equipment in the container industry can adversely affect the cash flows of container owners and could impair the ability of these companies to meet their obligations to the group and its export partners under the long-term export contracts. Conversely, improved market conditions may enhance their ability to meet these obligations. Trencor's in-depth understanding of the industry and many of the main participants enables the company to monitor the activities of these entities and, where necessary, take whatever action may be required to protect the company's and the export partners' interests. Changes in market conditions in the industry require the company to make appropriate fair value adjustments from time to time to recognise the changes in the timing and possible non-receipt of instalments under these long-term export contracts.

- **Access to credit**

The past several years have been characterised by weak global economic conditions, inefficiencies and uncertainty in the credit markets, a low level of liquidity in many financial markets and extreme volatility in many equity markets. Although these conditions appear to be abating and global recoveries seem to be under way, it is not yet clear whether a sustainable recovery is currently taking place. Any deceleration or reversal of the relatively slow and modest global economic recoveries could heighten a number of material risks to Textainer's and TAC's businesses, results of operations, cash flows and financial condition, as well as their future prospects, including the following:

- Containerised cargo volume growth: A contraction or slowdown in containerised cargo volume growth or negative containerised cargo volume growth would likely create a surplus of containers, lower utilisation, higher direct costs, weaker shipping lines going out of business, pressure for lease concessions and lead to a reduction in the size of customers' container fleets. High utilisation of containers and fleet growth may not be sufficient to provide revenue and income growth if increased competition or other factors keep container lease rates low for prolonged periods.
- Credit availability and access to equity markets: Continued issues involving liquidity and capital adequacy affecting

lenders could affect the ability to fully access credit facilities or obtain additional debt and could affect the ability of lenders to meet their funding commitments. Further, high level of volatility in the equity markets may make it difficult for Textainer to access the equity markets for additional capital at attractive prices, if at all. If the company is unable to obtain credit or access the capital markets, its business could be negatively impacted. Additionally, in recent years there has been increased access to debt financing on favourable terms by Textainer and TAC and their competitors and this has led to greater competition for lease transactions and lower container lease rates.

- Credit availability to customers: It is believed that many customers are reliant on liquidity from global credit markets and, in some cases, require external financing to fund their operations. As a consequence, if these customers lack liquidity, it would likely negatively impact their ability to pay amounts due to Textainer and TAC.

Many of these and other factors affecting the container industry are inherently unpredictable and beyond the control of the Operations.

- **Lessee defaults may harm Textainer's and TAC's businesses, results of operations and financial condition by decreasing revenue and increasing storage, repositioning, collection and recovery expenses**

Textainer's and TAC's containers are leased to numerous container lessees. Lessees are required to pay rent and to indemnify the owners for damage to or loss of containers. Lessees may default in paying rent and performing other obligations under their leases. A delay or diminution in amounts received under the leases (including leases on managed containers), or a default in the performance of maintenance or other lessee obligations under the leases could adversely affect Textainer's or TAC's businesses, results of operations and financial condition and their ability to make payments on their debt.

When lessees default, Textainer or TAC may fail to recover all of their containers, and the containers that they do recover may be returned to locations where they will not be able to quickly re-lease or sell them on commercially acceptable terms. Historically these companies have recovered a very high percentage of their containers from defaulting lessees. However in 2013 there were defaults from several smaller lessees where recoveries did not track historical experience and significant losses were incurred. If a material amount of future recoveries from defaulting lessees continue to deviate from historical recovery experience, Textainer's or TAC's financial performance and cash flow could be severely adversely affected.



- **Interest rates**

Textainer and TAC have various borrowing facilities, all of which are denominated in US dollars and borrowings made under the facilities may be subject to variable interest rates. Textainer and TAC have firm policies that long-term lease business should be financed with fixed rate debt and master lease (short-term) business should be financed with variable rate debt. Interest on loans raised to purchase containers leased out under long-term leases (usually of five years' duration at fixed rates) is swapped into fixed interest rate contracts of a similar term, while loans raised to purchase containers for master lease are at variable rates. Textainer and TAC have entered into various interest rate swap and cap agreements to mitigate the exposure associated with variable rate debt. The swap agreements involve payments to counterparties at fixed rates in return for receipts based upon variable rates indexed to the London InterBank Offered Rate. There can be no assurance that these interest rate caps and swaps will be available in the future, or if available, will be on satisfactory terms. If Textainer and TAC are unable to obtain such interest rate caps and swaps or if a counterparty under the interest rate swap and cap agreements defaults, the exposure associated with the variable rate debt could increase. Neither Textainer nor TAC applies hedge accounting to the interest rate swaps, notwithstanding that such swaps may be economically effective; they account on the basis that the net result of the marked-to-market valuation of these instruments is flowed through profit or loss. This may result in volatility of earnings.

- **Credit risk concentration**

Textainer's customers are mainly international shipping lines which transport goods on international trade routes. Once containers are on-hire to a lessee, Textainer does not track their location. The domicile of the lessee is not indicative of where the lessee is transporting containers. The business risk for Textainer in its international operations lies with the creditworthiness of the lessees rather than the geographic location of the containers or the domicile of the lessees.

Textainer's five largest customers accounted for approximately 38,2% of its total owned and managed fleet's 2014 lease billings (2013: 38,0%). Lease billings from Textainer's 20 largest container lessees by lease billings represented 74,7% and 72,1% of total owned and managed fleet's container lease billings in 2014 and 2013 respectively.

A single lessee accounted for 10,6% of Textainer's owned lease billings for 2014 (2013: 10,5%). One single lessee accounted for 9,3% and 12,7% of Textainer's trade receivables as at 31 December 2014 and 2013 respectively.

A default by any of these major customers could have a material adverse impact on Textainer's business, results from operations and financial position.

- **Container ownership**

Ownership of containers entails greater risk than management of containers for container investors. In 2014, Textainer increased the percentage of containers in its fleet that it owns from 75,6% at the beginning of the year to 78,9% at the end of the year. The increased number of containers in Textainer's owned fleet increases its exposure to financing costs, financing risks, changes in per diem rates, re-leasing risk, changes in utilisation rates, lessee defaults, repositioning costs, storage expenses, impairment charges and changes in sales price upon disposition of containers. The number of containers in the owned fleet fluctuates over time as new containers are purchased, containers are sold into the secondary resale market, and other fleets are acquired. As part of its strategy, Textainer focuses on increasing the number of owned containers in its fleet and therefore ownership risk may be expected to increase correspondingly.

- **Decrease in container fleet utilisation**

A decline in utilisation, for example due to a reduction in world trade or in container traffic on particular routes or an oversupply of competitors' containers, could result in reduced revenue, increased storage expenses and thus lower profit. In order to reduce volatility in revenue and earnings of the containers in Textainer's on-hire fleet, 84,0% (2013: 83,5%) are on long-term lease and finance lease. Textainer has also developed a very active used-container trading operation and thus has an effective infrastructure to dispose of containers that have reached the end of their economic lives, on the best available terms. Textainer monitors containers due to come off lease and manages their disposal or re-lease.

- **Container off-hires in low demand locations**

A build-up of off-hire containers in low demand locations where they cannot easily be on-hired again could lead to decreased utilisation, reduced revenue, higher storage costs and the possibility of having to ship the equipment, at considerable cost, to positions where it can be leased out. To reduce this exposure, Textainer is increasingly placing containers into long-term leases and also negotiating more favourable lease terms that limit the number of containers that lessees may off-hire in low demand areas. It also regularly repositions containers from low to high demand locations.

- **New container prices**

Changes in the prices of new container equipment have an impact on lease rates. In general, declining new container prices lead to softening in rates, while increasing prices may result in upward pressure on lease rates. If a downturn in new container prices is sustained, the lease rates of older, off-lease containers would also be expected to decrease and the prices obtained for containers sold at the end of their useful life would

also be expected to decrease. If a reduction in the price of new containers is sustained such that the market lease rate or resale value for all containers is reduced, this trend could harm Textainer's or TAC's businesses, results of operations and financial condition, even if this sustained reduction in price would allow those companies to purchase new containers at a lower cost.

- **Value of containers**

The ultimate return from the ownership of a container will depend, in part, upon the residual value at the end of its economic life. The market value of a used container depends upon, among other things, its physical condition, supply and demand for containers of its type and remaining useful life in relation to the cost of a new container at the time of disposal and the location where it will be sold. A decline in residual values of containers can adversely affect returns from container ownership and cash flows.

Shareholders are informed, by means of press announcements and releases in South Africa and/or printed matter sent to such shareholders, of all relevant corporate matters and financial reporting as required in terms of prevailing legislation. Trencor also publishes a trading update in respect of the quarters ending March and September each year, in addition to the interim results and reviewed results announcements for the periods ending June and December respectively. In addition, such announcements are communicated via a broad range of channels in both the electronic and print media. The company maintains a corporate website (www.trencor.net) containing financial and other information, including interim, reviewed and annual results.

INFORMATION RESOURCES MANAGEMENT

Trencor, like other organisations, is reliant on information technology to effectively and efficiently conduct its business. The IT systems, policies and procedures are reviewed on an ongoing basis to ensure that effective internal controls are in place to manage risk and promote efficiencies, and as far as possible to comply with universally accepted standards and methods. Attention is continuously focused on maximising the benefits whilst minimising the risks associated with all aspects of the IT portfolio as they apply to business operations.

Security policies and procedures for employees and the use of technologies such as enterprise and personal firewalls, antivirus systems, intrusion monitoring and detection are applied, as well as frequent application of software security 'patches' issued by vendors as and when vulnerabilities are discovered.

Trencor corporate office has established procedures that when invoked enable a complete recovery of the IT network and business systems within specified time limits. Textainer and TAC have their own business continuity plans.

STAKEHOLDER COMMUNICATION

Members of the executive committee of the board meet on an ad-hoc basis with institutional investors, investment analysts, individuals and members of the financial media. Discussions at such meetings are restricted to matters that are in the public domain. No such discussions are permitted in a closed period.